

4. Study the extract below and answer the questions that follow.

**The strong peso is a cause for concern**

- ❶ The Philippines peso has increased more than 8% in the last six months, but not everyone is happy.
- ❷ “We are not only losing, we are dying,” Roberto Amores, president of the country’s largest food exporters’ association and the mango exporters’ group said. Mango customers have turned to Mexico.
- ❸ Exports account for about 40% of the country’s output and they are finding it increasingly difficult to make money due to the **currency appreciation**. The peso touched a 3-year high of 50 pesos per US dollar last week. The peso’s rise had more than halved food exporters’ profit margins. Exporters have recommended the central bank reduce the exchange rate to 52 pesos per US dollar. The central bank has rejected the proposal, saying it only intervenes to reduce volatility.
- ❹ The Philippines has 8.5 million workers overseas sending home money, worth about 10% of gross domestic product. For them, the peso’s strength means their earnings buy less at home. For the millions of families who rely on handouts from relatives working abroad, the loss of five pesos in the dollar’s value means they have about 60 billion pesos less to spend annually.
- ❺ Some economists say the impact on exporters could have a consequential effect on consumer spending, employment and growth. “If exporters are losing money, then economic growth will be at risk,” said the economic planning secretary. Annual growth of 7 to 8% is needed to significantly improve living standards in the Philippines.
- ❻ Despite the problems associated with a currency appreciation, there are those who say the benefits to the Philippines outweigh the costs. The cost of repaying US\$76 billion of debt is reduced, leaving more public funds to improve welfare.
- ❼ The peso’s gains have also helped dampen inflation pressures, allowing the central bank to avoid tightening **monetary policy**.

*(This question continues on the following page)*

*(Question 4 continued)*

- (a) Define the following terms indicated in bold in the text:
  - (i) currency appreciation (*paragraph 3*) *[2 marks]*
  - (ii) monetary policy (*paragraph 7*). *[2 marks]*
- (b) Using an appropriate diagram, explain how the Philippines' central bank could reduce the value of the peso from 50 pesos per US dollar to 52 pesos per US dollar (*paragraph 3*). *[4 marks]*
- (c) Using an appropriate diagram, explain how the 8% rise in the Philippines peso (*paragraph 1*) has affected the market for mangos in Mexico. *[4 marks]*
- (d) Using information from the text and your knowledge of economics, evaluate the impact of a currency appreciation on the Philippines economy. *[8 marks]*